STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

Bulletin 2002-8

Issued this 22nd day of November, 2002

TO: <u>ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA</u>

This bulletin supersedes bulletin 2001-4 and reminds all crop hail insurers of the requirements of Minnesota Statute 70A.04, subdivision 1, which states, "rates shall not be excessive, inadequate or unfairly discriminatory, nor shall an insurer use rates to engage in unfair price competition." In making your filing for the 2003 season, follow these guidelines:

1. Companies must file for the 2003 crop season. No new business may be written until the new rates are effective. New rates must also be filed electronically in the format prescribed for the 2000 & 2001 filings. Any new filings must be in our office prior to February 1, 2003, pursuant to M.S. 60A.32. The CROP HAIL INSURANCE RATE FILING FORM (attached) must be included in your filing.

2. Companies must use the 2003 NCIS final average loss costs with catastrophe by township (FALC with catastrophe) or loss costs developed by using meaningful statistics from a large data base for a minimum of 20 years. Your rates should not be limited, neither capped nor cupped, based on a prior year's rates. Companies may deviate from the NCIS FALC by a maximum of 10% up or down. Any deviation greater than 10% requires convincing actuarial justification. This actuarial support must be based on credible experience.

3. Deviations in low liability townships and/or counties:

   (a) If the liability in a township is less than $50,000, i.e., a low liability township, then you may judgmentally modify the FALC with catastrophe for that township to be consistent with the rates of adjacent townships. Your filing must identify all townships where you do this. You must explain why the NCIS rate is inappropriate and why your proposed rate is better.

   (b) In the 2002 NCIS filing, corn is factored off of wheat in corn low liability counties where the wheat is not low liability and wheat is factored off of corn in wheat low liability counties where the corn is not low liability. The county low liability threshold is $1,250,000. At your option you may extend this NCIS low liability procedure for wheat FALC to counties where wheat liability is up to $10,000,000 provided that corn liability exceeds $10,000,000. (See Exhibit B, pages 10 and 11, of the 2002 NCIS Filing for a list of wheat and corn liabilities by county.) For example, the wheat liability for Blue Earth County is 5,653,625 and the corn liability is 399,250,601. The NCIS calculates the wheat FALC in Blue Earth County using the wheat experience alone. You may use the wheat FALC provided by the NCIS for Blue Earth County if you wish, or, if you prefer, you may set the wheat FALC equal to 1.52 times the corn FALC in that county. Your filing must identify all counties where you choose this option to deviate from the NCIS FALC. In counties where the wheat liability exceeds 10,000,000, you must use the NCIS wheat FALC.

4. You may use minimum and maximum FALC by crop class on either a statewide or county basis. Your filing must specify and justify each minimum and maximum, and they should be balanced and reasonable. By balanced, we mean that the expected effect is revenue neutral.

5. You must document the calculation of the company's FALC multiplier.

   (a) You must include a three-year expense statement itemizing Production Expenses; Taxes, Licenses and Fees; General Expenses; Loss Adjusting Expenses; and Other Expenses.

   (b) You may separate fixed from variable expenses and you may use an expense constant, but if you do so you must provide an analysis that identifies the different categories of expenses and demonstrates that the aggregate premium will be unchanged by the separation.

   (c) If you vary the multipliers by FALC, then you are implicitly separating fixed from variable expenses, and you must provide an analysis to justify the different multipliers.

6. You must include a complete list of crop and policy form factors used by your company. The five-digit NCIS code assigned to the policy form must be shown in the table. That code must also correspond to the code used in the premium rates data file submitted to the Department of Commerce.

7. Discounts:

   (a) Cash discounts may not exceed 3% unless a higher discount can be justified. The cash must be paid by July 1 of the crop season to qualify for a 3% discount. Cash paid by August 1 can qualify a policy for a 2.5% discount. For a policy written after July 1 with a 3% discount, the cash must accompany the application to the processing office to qualify for the discount.

   (b) Large volume discounts will be allowed on a graduated scale, but only to an extent justified by specific expense savings. The savings must be identified in the filing. Your mles must also specify the eligibility criteria for the large volume discount.

   (c) Claim-free discounts for crop hail coverage cannot be actuarially justified, so these discounts will not be allowed.

   (d) A discoumt will not be allowed on crop hail premiums if a Multiple Peril Crop Insurance (MPCI) policy is involved, unless convincing actuarial support is supplied.

   (e) Any other discounts must be actuarially justified and submitted over the signature of a member of the Casualty Actuarial Society.

8. Do not file Multiple Peril Crop Insurance (MPCI) rates or forms, either as a formal filing or a courtesy filing.

Gary A LaVasseur

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